SENATE FINANCE & CLAIMS

Exhibit No. 1

Date 4-3-07

Bill No. HB131

2007 Legislative Session
Senate Finance and Claims
April 3, 2007
Roxanne M. Minnehan, Executive Director
Montana Public Employee Retirement Administration

HB131 – Generally Revise Public Employee Retirement Laws & Reducing the Guaranteed Annual Benefit Adjustment (GABA)

This legislation is requested by the Office of Budget and Program Planning. Representative Jon Sesso is the sponsor. The Public Employees' Retirement Board (PERB) is providing information on this legislation.

- The PERB had proposed HB159 to address the actuarial funding of the retirement systems. That bill was tabled in Committee. The PERB originally opposed HB131 in the House; however, the PERB recognizes that this is the only bill remaining that addresses the actuarial funding of the retirement systems.

- The PERB understands and respects desires to adjust benefits rather than simply increasing public employers' contribution rates to address the unfunded actuarial liabilities. However, within their fiduciary and statutory duty, they do not feel it is appropriate for them to support legislation that:
  - creates inequity among members within the same system – some members would have the benefit of a 3% GABA while others would have a 1.5% GABA while contributing at the same rate;
  - penalizes members of four actuarially sound systems by reducing their benefits;
  - does not provide assurances that retirement benefits will help retirees maintain an acceptable standard of living, especially with increasing healthcare costs.

- This legislation reduces the Guaranteed Annual Benefit Adjustment (GABA) from the current 3% to 1.5% for all new hires, in seven defined benefit retirement systems, effective July 1, 2007.

- Only three of the 10 retirement systems administered by the PERB are not currently funded on an actuarially sound basis.
  - Public Employees' Retirement System (PERS)
  - Game Wardens' and Peace Officers' Retirement System (GWPORS)
  - Sheriffs' Retirement System (SRS)

- This bill penalizes four defined benefit retirement systems that are actuarially sound.
  - Judges' Retirement System (JRS) has an actuarial surplus (Actuarial Value of Assets is larger than the Actuarial Liability).
  - Highway Patrol Officers' Retirement System (HPORS)
  - Municipal Police Officers' Retirement System (MPORS)
  - Firefighters' Unified Retirement System (FURS)

- Creating parity across retirement systems should focus on working to bring the one system (TRS) that cannot currently afford to increase its GABA in line with the other systems, not the reverse. The Teachers' Retirement Board is working on closing loopholes in that system to help with some of the funding problems. They are also looking into studying the plan design to meet the needs of the TRS. TRS has different provisions (e.g. TRS has a 25 and out provision, PERS requires 30 years.)

- The PERB and interim committees have worked hard to bring consistency to the retirement systems under the PERB's administration, including a consistent GABA for all members in all PERB-administered retirement systems.

- Reducing the GABA diminishes the system and results in disparity in the work place. Two workers side-by-side will be contributing at the same rate; however, depending on date of hire, the GABA will be different. This will be the case for all new employees, at all levels of city, county and state government, including new judges, new legislators and new executive branch employees, including the Governor.

- New hires do not create unfunded liability – the current contribution rate covers their normal cost, including the 3% GABA. However, retirement systems depend on some contributions of future members' salaries to pay for the existing liability.

❖ A 3% GABA is not out of line. The average CPI over the past ten years has been well over 1.5%. Over the last 20, 25 and 30-year period, the CPI average was 3.02%, 3.55%, 4.42%, respectively.

Consumer Price Index	
20-year (1996-2005)	3.02
25-year (1981-2005)	3.52
30-year (1976-2005)	4.42

❖ It has been our experience that when retirement benefits do not maintain standards of living, bills for additional benefits will be introduced every legislative session. Not only does this take up time and other resources of the legislature and agency staff, but it quite often results in ad hoc increases.

- Ad hoc increases are not pre-funded and place stress on the retirement systems.

- Ad hoc increases are the most expensive way of funding benefits because they immediately create unfunded liabilities because there is no method in place to collect the contributions to pay for the increases.

❖ PERS was established in 1945. Over the years, there have been many ad hoc benefit adjustments. Some have been very complicated. (Reference handout showing ad hoc adjustments every session since 1971 before the GABA was implemented.)

❖ A member hired June 2007 and a member hired in July 2007 will have two different benefit levels. One year into retirement for new hires (as early as six years from the effective date of this act) we will start seeing requests for ad hoc adjustments.

❖ Retirement plans are a significant part of the benefit package provided by employers. Promoting a good retirement plan helps with:

- Recruitment
- Retention
- Rewarding Loyal Service
- Reducing Employee Turnover
- Making Retirement Possible

- ❖ Cutting pension benefits will have to be offset with higher salaries to attract and retain good workers. The state is not the only employer. In PERS 1/3 of the employees are State Employees, 1/3 cities and counties, 1/5 school district. SRS – counties are the employers, MPORS & FURS – the cities are the employers.

- ❖ Maintaining the current benefit level is a small step towards providing an adequate benefit for our public servants.

- ❖ Retirement benefits are a substantial benefit to Montana's economy and tax base. During calendar year 2006, $182M was paid to retirees residing in Montana communities. This $182M went straight to the main streets in your cities and towns. For every $1 of employer contributions, the fund pays out $3 in additional benefits. (Reference handout)

- ❖ The PERB has a fiduciary responsibility to act in the sole interest of its members and beneficiaries without conflicting interests. To comply with these responsibilities the PERB
  - Has recommended increasing employer contributions to correct the funding status of three of the retirement systems
  - Does not endorse penalizing the adequately funded systems
  - Does not advocate reducing benefits and creating a new tier of employees.

- ❖ This bill as amended removes language in Section 4. 19-3-2117 (page 4 of the bill) that the PERB considers necessary to fund Defined Contribution Implementation Loan, the unfunded actuarial liability left by employees that chose the Public Employees' Retirement System-Defined Contribution Retirement Plan and the long-term disability plan trust fund for that plan. As you consider this legislation, please consider removing the House amendment that revised that language.

- ❖ We are available for any questions.

PERS COLA History

Year	Adjustment
1971	retired prior to 1/1/71 cost of living increase during period of time on retirement.
1973	**Retired** / **Increase** 1/1/73- 6/30/73 — -0- 1/1/72-12/31/72 — 1.67% Prior - 1/1/72 — 3.84%
1975	$1 per month for each year of service & $2 per month for each full calendar year retiree has been retired
1977	Based on 75% of the increase in the CPI **Retired** / **Increase** prior to 1/1/76 — 11.57% 1/1/76-12/31/76 — 4.32% after -12/31/76 — -0-
1979	**Retired** / **Increase** prior to 1/1/77 — 10.80% 1/1/77-12/31/78 — 0.45% per month after -12/31/78 — -0-
1981	$ 0.50 for each year of service -retired prior to 7/1/79 -minimum benefit, $300 for 30 years of service
1983	$1.00 per year of service. Retired prior to 7/1/81 $30 maximum. $ .50 per year of service. Retired between 7/1/81 and 12/31/82 $15 maximum.
1985	(25 X y X y)/ A A = current benefit y = years of service (max 30) -retired prior to 7/1/84 -COLA no less than $1 per year of service -COLA not more than $3 per year of service -If receiving more than $1,000 per month than no COLA -benefit less than $500/mth average % increase 12.20% -benefit $500 - $1000/mth average % increase 4.54% -benefit greater than $1,000 increase -0-

1987 5.5%

-retired prior to 7/1/86

-no COLA retirees working anytime in June 1986 for an agency covered by PERS

1992 Annual Lump Sum Benefit - For In-state retirees - Tax year 1991 Payments to resident retirees to offset new taxable status of benefits (ended in 1993 when Supreme Court ruled this benefit an unconstitutional tax-offset measure)

1993 Annual Lump Sum Benefit - For In-state retirees - Tax year 1992 Payments to resident retirees to offset new taxable status of benefits (ended in 1993 when Supreme Court ruled this benefit an unconstitutional tax-offset measure)

1993 Post Retirement Adjustment

- 5% permanent benefit increase
- Retired prior to 7/1/91
- divided 5% of total system benefits by total years of service; multiplied the quotient by the benefit recipient's years of service; multiplied the product by the appropriate option factor.

Retirement Benefits Benefit Montana's Economy

The benefit payments to Montana public employee retirees are essential to Montana's economy. ***Benefit payments added approximately $182 million dollars to Montana's economy and tax base in calendar year 2006.*** Three-quarters of the revenue for those benefit payments came from investments, especially national and international investment markets. This infusion of new money for the communities of Montana is spread across the state to retirees from the Public Employees', Judges' Highway Patrol Officers' Sheriffs', Game Wardens' and Peace Officers', Municipal Police Officers', Firefighters' Unified Retirement Systems and the Volunteer Firefighters' Compensation Act.

2006 Retirement Benefits Distributed by County

County	$ Benefit	County	$ Benefit	County	$ Benefit
BEAVERHEAD	1,629,611	GRANITE	664,963	POWELL	2,794,563
BIG HORN	862,966	HILL	2,647,839	PRAIRIE	431,194
BLAINE	744,905	JEFFERSON	4,688,416	RAVALLI	4,024,946
BROADWATER	871,373	JUDITH BASIN	413,545	RICHLAND	1,378,621
CARBON	1,576,324	LAKE	3,545,140	ROOSEVELT	1,259,116
CARTER	169,571	LEWIS & CLARK	37,142,701	ROSEBUD	1,105,985
CASCADE	15,077,443	LIBERTY	297,973	SANDERS	1,135,824
CHOUTEAU	769,137	LINCOLN	1,961,841	SHERIDAN	773,452
CUSTER	3,805,680	MADISON	1,399,237	SILVER BOW	9,026,628
DANIELS	343,420	MCCONE	316,816	STILLWATER	1,070,646
DAWSON	2,655,560	MEAGHER	380,398	SWEET GRASS	479,995
DEER LODGE	5,153,299	MINERAL	917,001	TETON	1,366,114
FALLON	650,323	MISSOULA	14,783,278	TOOLE	887,068
FERGUS	3,179,964	MUSSELSHELL	700,463	TREASURE	142,759
FLATHEAD	9,727,376	PARK	1,671,245	VALLEY	1,984,102
GALLATIN	10,760,972	PETROLEUM	120,658	WHEATLAND	360,977
GARFIELD	153,544	PHILLIPS	855,334	WIBAUX	376,606
GLACIER	1,231,137	PONDERA	1,105,050	YELLOWSTONE	19,857,940
GOLDEN VALLEY	266,101	POWDER RIVER	415,465	**TOTAL**	**$ 182,112,605**